

A G E N D A



Recommendation for Council Action

Austin City Council	Item ID	6903	Agenda Number	2.
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Meeting Date:	5/26/2011	Department:	Austin Energy
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Subject

Approve a resolution governing the process for commission review of proposed revisions to Austin Energy electric rates and addressing cost allocation methodologies.

Amount and Source of Funding

There is no unanticipated fiscal impact.

Fiscal Note

A fiscal note is not required.

Purchasing Language:

Prior Council Action:

For More Information: Larry Weis, General Manager, 322-6002.

Boards and Commission Action: Recommended by the Electric Utility Commission.

MBE / WBE:

Related Items:

Additional Backup Information

Austin Energy is currently conducting a comprehensive review of electric rates. Austin Energy's base electric rates were last reviewed comprehensively in 1994. The ongoing review includes a Cost of Service Study and consideration of the design of Austin Energy rates. Austin Energy's detailed analysis of costs and rate designs began late in 2010 and will continue through the summer of 2011. Also during this year, Austin Energy has been engaged in a detailed conversation with a broadly representative set of customers ("Public Involvement Committee" or "PIC") assembled by Austin Energy to provide input on various rates design issues. That PIC conversation will conclude in June, to be followed by an expanded conversation with customers across the community. In the fall, Austin Energy will complete its recommendations, which will be submitted to the Electric Utility Commission ("EUC") and the public for review. City Code Section 2-1-143 directs the EUC to review and analyze Austin Energy's electric rate structure and to advise the City Council on such matters. This proposed resolution establishes a schedule and process for the EUC review.

The proposed resolution specifies the following actions: (1) directs the EUC to conduct a public review; (2) requires that staff recommendations be presented in a Rate Analysis and Recommendations Report; (3) establishes

requirements for public notice of the EUC review; (4) directs the EUC to develop a schedule of public meetings to receive public input; (5) assures participation on behalf of residential customers by the Residential Rate Advisor; (6) directs the EUC to provide recommendations to the Council for review by the end of October of 2011; and (7) directs that the EUC recommendations and the final Rate Analysis and Recommendations Report be presented at a City Council work session.

The proposed resolution also addresses the issue of cost allocation methodologies to be considered in the rate review. In 1997 the City Council adopted Resolution 971204-36, which called upon staff to use a methodology known as Probability of Dispatch ("POD") for allocating generation costs to various customer classes. Due to the recent implementation of a "nodal" market in the ERCOT grid in which Austin Energy participates, certain underlying assumptions key to the POD methodology are no longer valid. Therefore, the EUC and city staff now recommends that Resolution 971204-36 be rescinded. Austin Energy's Rate Analysis and Recommendation Report will review alternative cost allocation methodologies and provide a recommendation on the adoption of a methodology for EUC review and Council consideration.

According to the proposed resolution, the EUC review will begin on or about September 1, 2011 at a special meeting called to receive the Rate Analysis and Recommendations Report. The Report will include (1) a proposed cost of service; (2) proposed revenue requirements, customer classes, cost allocation methodologies, rate structures, and rates and charges; and (3) alternative methods that are commonly used in the electric industry for the allocation of power production costs among customer classes. EUC review will conclude by the end of October of 2011.

Adopting a resolution authorizing the EUC to establish a firm schedule and clear review process will provide ratepayers full opportunity to participate and provide comments, thereby furthering the City's goals of transparency and ensuring that ratepayer input is taken into consideration. In addition, the process will assure the involvement of the Residential Rate Advisor retained by Austin Energy.